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THE HOTEL FORUM

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HOTEL FORUM

CONSUMER TRENDS

"If we understand where we have been, we can figure out where we are going," notes George Rice, president of GDR/CREST Enterprises Inc., a division of NPD Research, Inc. marketers of CREST (Consumer Reports on Eating Share Trends) data.

This data is provided by 13,000 households who report their dining-out habits two weeks each quarter or eight times a year. The sample, which is broken into 288 cells, is balanced by census region, income, age, family size and housewife education.

Rice, reporting consumer trends to the Hotel Forum participants, begins by tracing the economic trends in the foodservice industry. He then breaks the information down into figures pertaining to the hotel segment.

Dramatic demand

Says Rice: "When the second world war ended, two dramatic things occurred. First, there was a boom in the number of babies that were born and they became the teenagers of the 50s and 60s.

"Second, their purchase behavior away-from-home was substantially different from their parents.

"As a result, a situation developed where demand dramatically outstripped supply. It seemed as if there was always someone standing there with a fistful of dollars to spend," he says. According to Rice, this spending pattern continued through the 70s in spite of a recession in 1975. Indeed, in 1978 and 1979, Rice reports the industry "was picking up a good head of steam."

However, in the summer of 1979, a combination of factors dealt the industry an unexpected blow.

Continues Rice: "If you look back at 1978 and 1979, you can see there was a situation developing where disposable income was declining. During the same period of time, the cost of goods, the cost of everything, was increasing.

"So there was less money to spend, and what was being purchased cost more. Those forces came together in a crunch," emphasizes Rice. At this point, the customer began to make "discretionary" choices.

"The choice is not to stop eating, of course. Nor, is the choice to stop eating away from home and only eat at home. It is the element of frequency that is affected. It is how often the customer will dine out and how much he will spend each time that is impacted," he says.

Ramada Inn believes that meeting business will increase, but the emphasis will shift to smaller meetings held on a more frequent basis.

The importance of building frequency is evidenced by Rice's contention that "in the past, unit expansion was the primary vehicle for growth. Today, the name of the game is customer counts."

Another factor with a direct impact on the foodservice industry was the escalating cost of fuel. "When the energy crisis hit in the summer of 1979, there was a shock factor. This had a dramatic impact on travel as well as compounding the shock the consumer was experiencing," notes Rice.

The result of the combination of these factors—a drop in disposable income, rise in cost of consumer goods, the energy crisis—was a decline in customer traffic and sales.

Since the summer of 1979, the industry as a whole has experienced two successive years of a very soft economy. However Rice believes on the basis of the CREST data, that the industry is beginning to revive.

And, although he paints the overall picture as "moderately optimistic," the hotel category has not yet benefitted by the strong upward move experienced by the rest of the industry.

Share of industry dollars

The first indication that the hotel group is not faring as well as the industry is evidenced in the share of industry dollars enjoyed by the Hotel Group segment. (See chart page 142.)

In 1981, there is a significant loss of total share of total industry dollars (nominal rather than real) by the Hotel Group category. The drop is from a 6.06 share in 1978 to a 5.27 percent share in 1981.

One particular point of interest is that from 1978 to 1980, the category share is reasonably steady—maintaining a 6+ percentage through the economic downturn experienced industry wide in 1979-1980.

Says Rice: "Another way to look at the Hotel Group in terms of sales

There are a number of us who provide a restaurant as a convenience to the hotel guest, vis-a-vis a convenience to the local community.

is to compare the hotel category to the total industry." (See chart page 142.)

"The industry in 1978 and 1979 is flat and begins to drop. However, the Hotel Group continues to increase. In fact, the hotel category actually increased dollar sales at a level exceeding the industry. The Hotel Group was up 5.7 percent in 1980 vs. the industry increase of 4.8 percent (over 1979).

However, as the industry begins to regain its strength, the Hotel Group continues to decline. In 1981, this category's performance is extremely poor with sales declining 2.6 percent vs. an industry increase of 11.7 percent over 1980.

"The restaurants are picking up and we are staying the same," notes Schulze of Hyatt. "Consequently our share goes down. People don't come back once they have left us," he hypothesizes.

John Krielaart of Ramada Inns notes: "We are impacted by airline traffic more than the restaurant industry. Due to the air traffic controller's strike, flights are operating at only 75 percent these days. This hurts us."

The hotel category's share of industry traffic has steadily declined from 3.12 percent in 1978 to 2.81 percent in 1981. "Let's look at the trends in terms of traffic," says Rice. (See chart page 142.) "Again we see the industry starting to decline in 1979, flatten out and begin to pick up in 1980. In the hotel restaurant category we see a different situation in terms of traffic. "We see the traffic in the hotel category decline. These declines were on par with the industry's in 1979. However, declines posted in 1980 and 1981 were steeper than the industry."

The Hotel category rate of traffic loss was −7.9 percent in 1980 vs. the industry's loss of −3.8 percent. However, in 1981, the industry experienced a +1.8 percent recovery of traffic. This was not enjoyed by hotel restaurants which experienced still further traffic declines, of −3.8 percent in 1981.

According to Rice, these figures suggest that the Hotel restaurant is charging more than the rest of the industry for services, cost of goods sold or menu prices. Rice suggests this is evidence of a "price elastic" market where the consumer pulls out of the market place when the value perception decreases.

Schulze of Hyatt points out: "Some people here would suggest the decline is related to occupancy in the hotels. However, we have had no change in occupancy rates."

However, Joe Gardiner of Hilton reports that occupancy rates for their properties are down, adding: "We are down, but I think the hotel industry lags going into a recession by one or two quarters and subsequently, the industry lags coming out of a recession by one or two quarters. This has been Hilton's experience."

Hotel Group classifications

Since the Hotel Group represents a large body of companies, Rice has divided the "hotel world" into four classifications: upscale, midscale, budget uncoded hotels and inns.

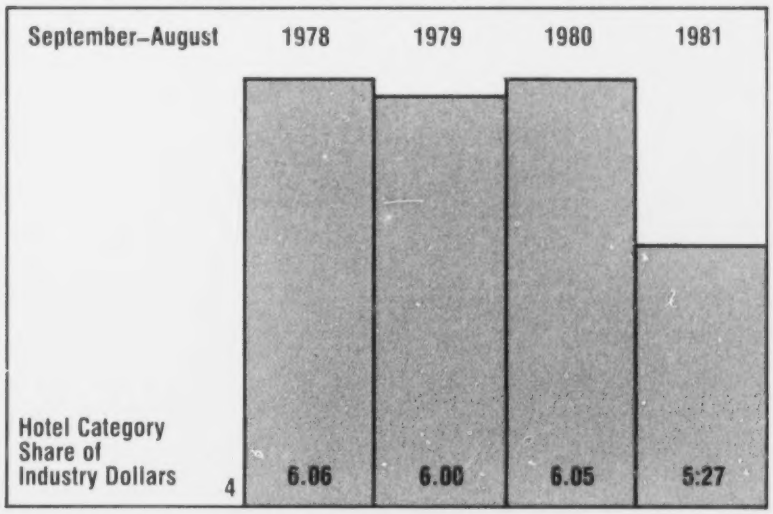
Restaurant critics have a bias against hotel restaurants. As a result, we cannot fairly compete with local, freestanding restaurants.

The identified major chains account for 31.1 percent of total category dollars. Midscale chains (e.g. Holiday Inns, Howard Johnson's, Ramada Inns and Sheraton) account for 23.2 percent of sales; upscale chains (e.g. Marriott, Hilton, Hyatt, Stouffer's and Radisson) account for 6.9 percent of sales; and budget chains (e.g. Red Carpet, Rodeway, Days Inns, Quality Inns and 19 other specific budget chains) account for 2 percent of sales. Uncoded hotels and inns accounted for 67.9 percent of sales for the year ending August 1981.

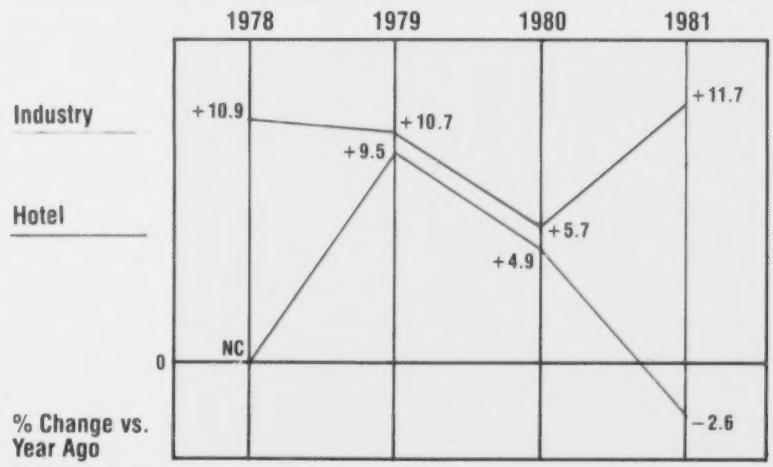
Rice says that in terms of dollar sales both the upscale and budget groups are increasing their shares.

"Another way to look at it in terms of dollars is to study at a vital indicator: customer traffic. In 1980, the upscale and midscale segments experienced steeper traffic losses than average for the category that year while the budget and uncoded group gained share points," he says.

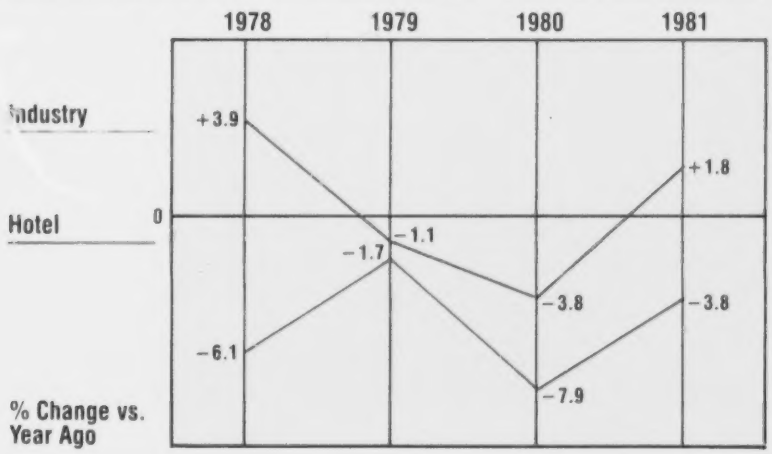
Hotel Category Sales Performance Total U.S.



Hotel Category Sales Performance—% Change



Hotel Category Traffic Performance—% Change



Along with overall improved performance for total restaurants in 1981, upscale and midscale hotel restaurants enjoyed some recovery while the remaining groups turned toward weakness.

Dealing

Perhaps assisting their stronger relative performance in 1980, budget and small chains/independents recorded increased levels of deal sales over amounts in 1979. Their deal sales level declined in 1981 as did their share hold of category traffic.

However, the highest usage of deals is reported in the midscale hotel restaurant. The 12 percent figure is higher than the industry average of 9 percent.

"What does the diary questionnaire consider a deal in a hotel restaurant?" questions Pat Maher of Holiday Inn.

Rice identifies coupons and priceoffs as deals. He notes that Holiday Inn, Howard Johnson's and Ramada Inn deal fairly successfully.

Sales breakout

One issue that triggered a lively debate was the percent of hotel restaurant dollars attributed to hotel guests. (See chart page 142.)

According to Rice: "Weaker traffic trends experienced by hotel restaurants may have been caused, at least partially, by declines in occupancy.

"While guests accounted for 38 percent of hotel restaurants sales in 1978, their contribution declined to 33 percent in 1980. Attracting the local patron becomes increasingly important," insists Rice.

According to Rice, upscale hotel restaurants have the greatest dependency on attracting local patrons since 65 percent of sales are local residents and 35 percent are guests. Midscale hotels attribute 39 percent of sales from guests and 61 percent from locals. Budget hotels are least dependent on locals since 53 percent of their sales are attributable to guests, while 47 percent are local.

Gardiner of Hilton disagrees with Rices figure indicating only 39

percent of midscale hotel restaurant business comes from the hotel guest. Says Gardiner: "I am astounded that the numbers indicated that more than 60 percent of the restaurant dollars in hotels are outside business with nothing to do with occupancy."

However Peeck of Sheraton finds the figures acceptable. Says Peeck: I am not astounded because hotels like our big convention centers in New York, Toronto and Boston have reported figures along those lines. If you throw in banquet business that figure would rise to 80 percent."

Business skew

"It is obvious that the hotel business skews toward a higher income," emphasizes Rice. "The higher the income, the far more likely the customer is to be buying."

Joan Bakos, editor of *Restaurant Business Magazine* points out: "Don't you think the hotel industry will benefit by the maturing of the population? It's an over-30 market today and that seems to skew right toward the hotel business rather than the fast food business."

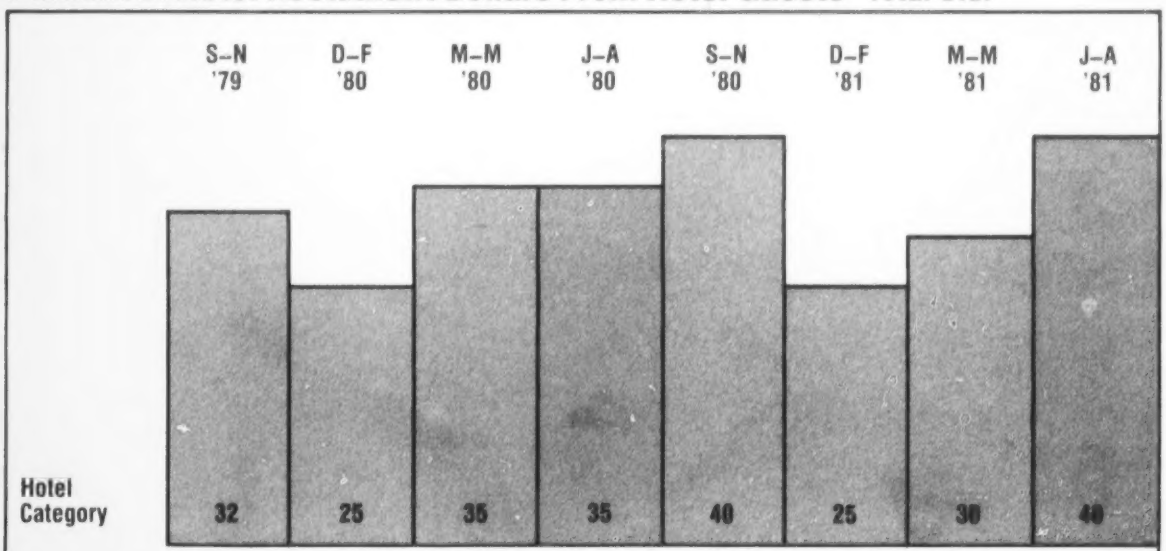
Customers perceive that a big corporation cannot deliver that 'personal touch.' At Sheraton, we can. But it is not always easy.

Rice agrees pointing out that there are five variables which influence the foodservice industry: disposable personal income, the CPI cost of food at-home vs. away-from-home, family travel and demographic factors including working women and as one component, age/income/family size.

"Age, income and family size are all working towards the Hotel Group's advantage," he points out. "But if you look far enough forward—another 10 or 15 years—there is another change on the horizon; An older population who spends less money."

Rice's final points are upbeat. "We think there will be real growth in 1982 and 1983; a growth in the range of two or three percent. "I suggest this bodes well for those foodservice companies—hotels included—that can identify and fit their concepts to a dramatically changing American lifestyle and consumer mix," Rice concludes.

Percent of Hotel Restaurant Dollars From Hotel Guests **Total U.S.**



	S–N '79	D–F '80	M–M '80	J–A '80	S–N '80	D–F '81	M–M '81	J–A '81
Midscale	45	34	37	42	45	39	30	43
Upscale	14	31	35	22	33	30	41	35
Budget	42	38	33	53	50	43	64	53
Uncoded Hotels and Inns	29	22	34	33	39	19	27	40

Charts Courtesy of GDR/CREST Ent.